



KalNorth Gold Mines and Controlled Entities
ACN 100 405 954

Financial Report

For the half-year ended 31 December 2014

KaINorth Gold Mines Limited and Controlled Entities
For the half year ended 31 December 2014

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**KalNorth Gold Mines Limited and Controlled Entities
For the half year ended 31 December 2014**

CORPORATE PARTICULARS

Directors	Lijun Yang (Executive Director) Jiajun Hu Yuanguang Yang (Appointed 28 August 2014)
Company Secretary	Lijun Yang
Registered Office	224 Dugan Street Kalgoorlie, Western Australia 6430
Corporate Office	224 Dugan Street Kalgoorlie, Western Australia 6430
Mailing Address	PO Box 131 Subiaco WA 6904
Share Registry	Advanced Share Registry Limited 110 Stirling Highway Perth WA 6009
Auditor	RSM Bird Cameron Partners 8 St Georges Terrace Perth WA 6000
Solicitor	Steinepreis Paganin 16 Milligan St Perth WA 6000
Stock Exchange Listing	Australian Securities Exchange Ltd ASX code: KGM

DIRECTORS' REPORT

The directors present their report on the consolidated entity consisting of KalNorth Gold Mines Limited and the entity it controlled ("the Consolidated Entity") for the half-year ended 31 December 2014.

Directors

The names of directors who held office during the half year and until the date of this report are provided below. Directors were in office for the entire period unless otherwise stated.

Lijun Yang
Jiajun Hu
Yuanguang Yang - appointed 28 August 2014
Brendan Peter Connell - resigned 28 August 2014

Principal Activities

During the financial half-year the principal continuing activities of the consolidated entity consisted of mineral exploration.

Review of Operations

The profit attributable to members of KalNorth Gold Mines Limited for the half year ended 31 December 2014 was \$288,062 (2013: loss of \$9,524,364). Profit contribution came from the research and development refundable tax offset totalling \$533,785 and a gain on sale of mineral assets of \$913,460.

The research and development refundable tax offset has been recognised as a receivable at 31 December 2014 and was subsequently received on 28 January 2015, as disclosed in Note 11 of the financial report.

No dividends were paid or declared payable during or since the half-year.

Exploration Activities

Divestiture of the Mt. Jewell Tenement package

On 21 November 2014, the Company settled its agreement with Norton Gold Fields Ltd (ASX: NGF) for the sale of its Mount Jewell project, including all mineral tenements and exploration database comprising that project, for cash consideration amounting to \$1.8 million.

Limited exploration activities

The Company carried out limited exploration work during the period, but was complimented by work undertaken by the various prospectors authorised to work on the tenements, principally at Kurnalpi. The information and work undertaken by the prospector activity contributed to the statutory expenditure commitment required by the Department of Mines and Petroleum on each tenement.

The Company continued its strategic review of all projects and development of planned short and mid-term exploration programs.

DIRECTORS' REPORT (Cont'd)

Corporate

South Victory Global Limited ("SVG") Loan

On 28 August 2014, the Company issued 35,842,004 ordinary fully paid shares (at an issue price of 1 cent each) to SVG to convert the partial outstanding interest on the loan to equity. This extinguished \$358,420 of accrued interest owing to SVG.

Changes to the Composition of the Board

On 28 August 2014, Mr. Brendan Connell resigned as a non-executive Director and Mr. Yuanguang Yang (a representative of SVG) was appointed as a Non-Executive Director.

Change of Company Secretary

On 29 August 2014, Mr James Church resigned as Company Secretary. Executive Director, Mr Lijun Yang was appointed in this role as the Interim Company Secretary.

New Short term Loan Facility

On 8 September 2014, the Company announced that it has entered into a converting loan agreement with Goldfresh Limited, a Hong Kong based investment company, for an amount of \$350,000 to provide the Company with working capital. The key terms of the converting note are an interest rate of 8% p.a, maturity date of 5 March 2016 and the conversion price being the lower of 1.5 cents or price of any shares issued after agreement execution date.

Events Subsequent to Reporting Date

- On 28 January 2015, the Company received payment of \$533,785 from the ATO with respect to its Research and Development Refundable Tax Offset in relation to the financial year ended 30 June 2014.
- On 16 February 2015, the Company announced it had issued 23,333,333 convertible notes to Gold Fresh Limited in settlement of a \$350,000 loan due to that entity. Shareholder approval for the issue of the convertible notes were previously granted at the Annual General Meeting held on 28 November 2014.
- On 11 March 2015, the Company announced it had reached agreement for the restructuring of all its secured and unsecured loans. All loans had become due and payable on or before 29 November 2014.

As a consequence of Deeds of Settlement and Release executed with all lenders, the revised loan arrangements are as follows:

- (i) Principal amounts of the loans (\$3,500,000 secured and \$700,000 unsecured for an aggregate of \$4,200,000) have a maturity date of 30 April 2016;

DIRECTORS' REPORT (Cont'd)

Events Subsequent to Reporting Date (Cont'd)

- (ii) Interest due and payable as at 31 December 2014 of \$667,073 on all loans has been settled by the issue of 41,177,334 fully paid ordinary shares at an issue price of \$0.0162 per share; and
- (iii) With effect from 1 January 2015, the interest rate applicable to all loans has been reduced to 10% per annum from 15% and 18% in some instances. With effect from 1 January 2015, interest is payable at six-monthly intervals across all loans.

Other than the above, there have been no other material items, transactions or events subsequent to 31 December 2014 which, although they do not relate to conditions existing at that date, have not been dealt with in this report and which would cause reliance on the information shown in this report to be misleading.

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration under section 307C of the *Corporations Act 2001* is set out on page 4 and forms part of the Directors' Report for the half-year ended 31 December 2014.

Signed in accordance with a resolution of the Directors.



Lijun Yang
Director


Dated at Perth this 16 March 2015

RSM Bird Cameron Partners
8 St Georges Terrace Perth WA 6000
GPO Box R1253 Perth WA 6844
T +61 8 9261 9100 F +61 8 9261 9101
www.rsmi.com.au

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of KalNorth Gold Mines Limited for the half-year ended 31 December 2014, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.



RSM BIRD CAMERON PARTNERS



Perth, WA
Dated: 16 March 2015

D J WALL
Partner

KaINorth Gold Mines Limited and Controlled Entities
For the half year ended 31 December 2014

STATEMENT OF COMPREHENSIVE INCOME
For the half year ended 31 December 2014

		Consolidated	
		31 December	31 December
		2014	2013
		\$	\$
Revenue from gold sales		9,295	5,192,150
R&D tax refund	3	533,785	2,377,491
Other income	2	924,164	146,944
Cost of sales		-	(5,519,476)
Exploration expenses	4	(169,837)	(409,803)
Employment costs		(140,645)	(382,208)
Professional fees and consultants		(228,462)	(90,803)
Director fees		(29,750)	(49,000)
Advertising and promotion costs		(1,500)	(16,079)
Occupancy costs		(72,921)	(89,757)
Listing and registry fees		(22,024)	(16,193)
Impairment expenses	4	-	(10,000,000)
Depreciation		(64,094)	(149,044)
Loss on disposal		-	(56,685)
Interest expense		(342,450)	(331,160)
Other expenses		(107,499)	(130,741)
Profit/(loss) before income tax		<u>288,062</u>	<u>(9,524,364)</u>
Income tax expense		-	-
PROFIT/(LOSS) FOR THE PERIOD		<u>288,062</u>	<u>(9,524,364)</u>
 Other comprehensive income			
<i>Items that may be reclassified subsequently to operating result</i>			
Revaluation of available for sale financial assets		-	8,076
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		-	8,076
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>288,062</u>	<u>(9,516,288)</u>
 EARNINGS PER SHARE			
Basic and diluted earnings/(loss) per share (cents)		0.11	(5.61)

The accompanying notes form an integral part of these financial statements.

KaINorth Gold Mines Limited and Controlled Entities
For the half year ended 31 December 2014

STATEMENT OF FINANCIAL POSITION
As at 31 December 2014

	Note	Consolidated 31 December 2014 \$	30 June 2014 \$
Assets			
Current Assets			
Cash and cash equivalents		714,373	128,867
Trade and other receivables	3	556,076	32,503
Other assets		7,500	34,548
Total Current Assets		<u>1,277,949</u>	<u>195,918</u>
Non-Current Assets			
Property, plant and equipment		440,739	504,833
Exploration and evaluation expenditure	4	7,035,398	8,035,398
Total Non-Current Assets		<u>7,476,137</u>	<u>8,540,231</u>
Total Assets		<u>8,754,086</u>	<u>8,736,149</u>
Liabilities			
Current Liabilities			
Trade and other payables	5	332,719	1,231,834
Interest bearing liabilities	6	4,875,818	4,891,788
Total Current Liabilities		<u>5,208,537</u>	<u>6,123,622</u>
Non-Current Liabilities			
Interest bearing liabilities	6	350,000	-
Provision for rehabilitation		1,035,910	1,099,370
Total Non-Current Liabilities		<u>1,385,910</u>	<u>1,099,370</u>
Total Liabilities		<u>6,594,447</u>	<u>7,222,992</u>
Net Assets		<u>2,159,639</u>	<u>1,513,157</u>
Equity			
Issued capital	7	75,584,649	75,226,229
Reserves	8	58,864	1,334,418
Accumulated losses		(73,483,874)	(75,047,490)
Total Equity		<u>2,159,639</u>	<u>1,513,157</u>

The accompanying notes form an integral part of these financial statements.

KalNorth Gold Mines Limited and Controlled Entities
For the half year ended 31 December 2014

STATEMENT OF CHANGES IN EQUITY
For the half year ended 31 December 2014

Consolidated	Issued Capital	Share Based Payment Reserve	Financial Asset Reserve	Accumulated Losses	Total Equity
	\$	\$	\$	\$	\$
At 1 July 2013	74,603,464	2,864,791	(8,076)	(65,814,380)	11,645,799
Loss for the period	-	-	-	(9,524,364)	(9,524,364)
Revaluation of available for sale investments	-	-	8,076	-	8,076
Total comprehensive income for the period	-	-	8,076	(9,524,364)	(9,516,288)
Shares issued during the period, net of issue costs	493,222	-	-	-	493,222
Transfer of expired share options to retained earnings	-	(1,395,897)	-	1,395,897	-
At 31 December 2013	75,096,686	1,468,894	-	(73,942,847)	2,622,733
At 1 July 2014	75,226,229	1,334,418	-	(75,047,490)	1,513,157
Profit for the period	-	-	-	288,062	288,062
Total comprehensive income for the period	-	-	-	288,062	288,062
Shares issued during the period, net of issue costs	358,420	-	-	-	358,420
Transfer of expired share options to retained earnings	-	(1,275,554)	-	1,275,554	-
At 31 December 2014	75,584,649	58,864	-	(73,483,874)	2,159,639

The accompanying notes form an integral part of these financial statements.

KaINorth Gold Mines Limited and Controlled Entities
For the half year ended 31 December 2014

STATEMENT OF CASH FLOWS
For the half year ended 31 December 2014

	Consolidated	
	31 December	31 December
	2014	2013
	\$	\$
Cash flows from Operating Activities		
Receipts from external parties	25,890	6,019,460
Payments to suppliers and employees	(747,778)	(9,074,382)
Proceeds from return of security deposit – office lease	27,050	-
GST collected on sale of tenements	180,000	-
Interest received	344	20,283
Interest paid	-	(39,594)
Net cash (used in) operating activities	<u>(514,494)</u>	<u>(3,074,233)</u>
Cash flows from Investing Activities		
Payments for purchase of exploration	(1,050,000)	-
Proceeds from sale of exploration tenements	1,800,000	12,500
Payments for plant and equipment	-	(26,002)
Proceeds from sale of plant and equipment	-	236,500
Payments for available for sale investments	-	(13,434)
Proceeds from sale of available for sale investments	-	9,406
Net cash provided by/(used in) investing activities	<u>750,000</u>	<u>218,970</u>
Cash flows from Financing Activities		
Proceeds from issue of share capital	-	592,915
Proceeds from borrowings – convertible loans	350,000	-
Net cash provided by financing activities	<u>350,000</u>	<u>592,915</u>
Net increase/(decrease) in cash held	585,506	(2,262,348)
Cash and cash equivalent at the beginning of the half-year	<u>128,867</u>	<u>2,427,292</u>
Cash and cash equivalent at the end of the half-year	<u>714,373</u>	<u>164,944</u>

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the half year ended 31 December 2014

1. Basis of Preparation

KalNorth Gold Mines Limited is a listed public company, incorporated and domiciled in Australia. During the half year ended 31 December 2014 (the "period"), the consolidated entity conducted operations in Australia.

These consolidated interim financial statements of the consolidated entity for the period ended 31 December 2014 are general purpose financial statements prepared in accordance with the requirements of the Australian Corporations Act 2001 (Cth), applicable accounting standards including AASB 134 'Interim Financial Reporting', other authoritative pronouncements of the Australian Accounting Standards Board ('AASB') and Urgent Issues Group Interpretations.

These interim financial statements do not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the group as in the full financial report. It is recommended that these interim financial statements be read in conjunction with the annual financial report for the year ended 30 June 2014, and any public announcements made by the group during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements, except in relation to the matters discussed below.

New and Revised Accounting Standards

In the current year, KalNorth Gold Mines Limited has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has not resulted in a significant or material change to the entity's accounting policy.

Going Concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

As disclosed in the financial statements, the consolidated entity earned a profit of \$288,062 and the consolidated entity had net cash operating outflows of \$514,494 for the half-year ended 31 December 2014. The profit for the period was the result of a \$533,785 research and development refundable tax offset (Note 3) and a \$913,460 gain on the sale of tenements from the Mt. Jewell project (Note 2). As at 31 December 2014, the consolidated entity had current assets of \$1,277,949 which includes \$714,373 in cash and cash equivalents. However, as a result of total current liabilities of \$5,208,537, there was a net working capital deficiency of \$3,930,588 as at 31 December 2014.

The Directors believe that it is appropriate to prepare the financial statements on a going concern basis for the following reasons:

- (i) As disclosed in Note 11, on 10 and 11 March 2015, the Company reached agreement with its lenders for the restructuring of all its secured and unsecured loans, and the conversion of all accrued interest as at reporting date (\$667,073) to company shares;

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

1. Basis of Preparation (Cont'd)

- (ii) As part of the agreement reached with its lenders, the Company has extended the term of principal payments to 30 April 2016, thus addressing the working capital deficiency referred to above;
- (iii) Cross-Strait Common Development Fund Limited in its capacity as a substantial shareholder of KalNorth Gold Mines Limited, has undertaken to provide financial support to KalNorth Gold Mines Limited to enable the consolidated entity to pay its operating expenses as and when they become payable for a period of 12 months from the date of this report;
- (iv) The ability to curtail administrative and operational cash out flows as required

The Directors have reviewed the consolidated entity's overall position and outlook in respect of the matters identified above and believe that it is reasonably foreseeable that the consolidated entity will continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report.

2. Other income

	Consolidated	
	31 December 2014	31 December 2013
	\$	\$
Gain on sale of Mt Jewell Project – tenements (i)	913,460	-
Gain on sale of tenements	-	12,500
Gain on sale of plant and equipment	136	106,622
Interest income	1,068	-
Other	9,500	27,822
Total revenues	924,164	146,944

- (i) On 7 November 2014, the Company settled its sale of the Mount Jewell project in the Goldfields region, Western Australia. The gain on sale consisting of the following components;

Proceeds from Sale (exclusive of GST)	1,800,000
Deferred purchase consideration - early payment discount	50,000
Exploration & evaluation expenditure write-back on disposal (Note 4)	(1,000,000)
Rehabilitation provision write-back on disposal	63,460
Total gain on sale	913,460

3. Trade and Other Receivables

	Consolidated	
	31 December 2014	30 June 2014
	\$	\$
R&D tax credit receivable (i)	533,785	-
GST receivable	21,566	16,534
Other receivables	725	15,969
Total trade and other receivables	556,076	32,503

- (i) The R&D tax credit receivable relates to the 2013/2014 financial year and was subsequently received on 28 January 2015.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

4. Exploration and Evaluation Expenditure	Consolidated	
	31 December 2014	30 June 2014
	\$	\$
Cost	7,035,398	8,035,398
<i>Reconciliation</i>		
Balance at beginning of period/year	8,035,398	17,547,128
Exploration expenditure incurred for the period/year	169,837	805,489
Exploration expenditure immediately expensed	(169,837)	(805,489)
Disposal of tenements – Mt Jewell Project (Note 2 i)	(1,000,000)	-
Additional allowance for rehabilitation	-	613,170
Impairment expenses	-	(10,124,900)
Balance at end of period/year	7,035,398	8,035,398

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective mining areas. Amortisation of the costs carried forward for the development phase are not being charged pending the commencement of production.

5. Trade and Other Payables	Consolidated	
	31 December 2014	30 June 2014
	\$	\$
<i>Current</i>		
Trade payables	77,900	57,182
Deferred consideration (i)	-	1,100,000
GST payable on sale of tenement	180,000	-
Sundry payables and accrued expenses	74,819	74,652
	332,719	1,231,834

(i) A final cash payment of \$1,050,000 was made as part of the settlement on disposal of the Mt. Jewell project. The Company negotiated a \$50,000 early payment discount on this final deferred consideration (Note 2).

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

6. Interest Bearing Liabilities

	Consolidated	
	31 December 2014	30 June 2014
	\$	\$
Current		
Secured loans (i)	3,500,000	3,500,000
Unsecured loans (i)	700,000	700,000
Interest payable on loans (i)(iii)	675,818	691,788
<i>Total current interest bearing liabilities</i>	4,875,818	4,891,788
Non-current		
Convertible loan (ii)	350,000	-
	350,000	-

(i) *Secured and unsecured loans*

The secured and unsecured loan had become due and payable with effect on or before 29 November 2014.

On 11 March 2015, the Company announced it had reached agreement for the restructuring of all its secured and unsecured loans, and the conversion of all accrued interest as at reporting date to Company shares.

For further details with respect to the debt restructuring – refer to Note 11 - Events Subsequent to Reporting Date.

(ii) *Convertible loan*

On 8 September 2014, the Company announced that it has entered into a Converting Loan agreement with Goldfresh Limited, a Hong Kong based Investment Company, for an amount of \$350,000 to be used to providing the company with short-term funding for its working capital.

The loan was converted to convertible notes on 16 February 2015 – refer to Note 11 - Events Subsequent to Reporting Date.

The key terms of the converting note are as follows:

- (a) Principal - \$350,000
- (b) Interest – 8% p.a.
- (c) Maturity – 5 March 2016
- (d) Conversion Price – the lower of 1.5 cents or price of any shares issued after agreement execution date.

(iii) *Interest payable on loans*

The interest payable reconciliation is as follows:

Reconciliation

Balance at beginning of period	691,788
Interest expense incurred for the period	342,450
Interest payments made for the period	-
Interest settled by share placement (Note 7)	(358,420)
Balance at end of period	675,818

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

7. Issued Capital

	31 December 2014	30 June 2014
Ordinary Shares	\$	\$
274,788,700 fully paid ordinary shares (June 2014: 238,946,696)	75,584,649	75,226,229
Movement in fully paid ordinary shares:	No. of Shares	\$
At 1 July 2014	238,946,696	75,226,229
Placement (i)	35,842,004	358,420
At 31 December 2014	274,788,700	75,584,649

- (i) On 28 August 2014, the company issued 35,842,004 ordinary fully paid shares (at an issue price of 1 cent each) to SVG to convert the partial outstanding interest on the loan to equity. This extinguished \$358,420 of accrued interest owing to SVG.

8. Reserves

	31 December 2014	30 June 2014
	\$	\$
Share based payments reserve	58,864	1,334,418
Movement in share based payments reserve:	\$	
At 1 July 2014	1,334,418	
Options lapsed during the half-year period	(1,275,554)	
At 31 December 2014	58,864	

9. Dividends

No dividends were paid or declared payable during or since the half-year.

10. Segment Information

Identification of reportable operating segments

The consolidated entity is organised into one operating segment being mineral exploration, within the one geographical location, Australia (2013: two operating segments (mine development and mineral exploration), within the one geographical location, Australia).

These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments. The CODM reviews EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

KalNorth Gold Mines Limited and Controlled Entities
For the half year ended 31 December 2014

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

10. Segment Information (Cont'd)

<u>31 December 2014</u>	Mine Development ¹	Mineral Exploration	Unallocated	Total Consolidated Group
Revenue	\$	\$	\$	\$
Sales to external customers	-	9,295	-	9,295
Other revenue	-	-	1,456,881	1,456,881
Total revenue	-	9,295	1,456,881	1,466,176
EBITDA	-	(160,542)	854,080	693,538
Impairment	-	-	-	-
Depreciation and amortisation	-	(30,798)	(33,296)	(64,094)
Interest revenue	-	-	1,068	1,068
Finance costs	-	-	(342,450)	(342,450)
Profit/(loss) before income tax	-	(191,340)	479,402	288,062
Profit/(loss) after income tax	-	(191,340)	479,402	288,062
Segment Assets	-	\$7,270,492	1,483,594	8,754,086

¹All mine development assets reverted back to exploration assets after mine activity was suspended on 21 August 2013.

<u>31 December 2013</u>	Mine Development	Mineral Exploration	Unallocated	Total Consolidated Group
Revenue	\$	\$	\$	\$
Sales to external customers	5,192,150	-	-	5,192,150
Other revenue	-	-	2,524,435	2,524,435
Total revenue	5,192,150	-	2,524,435	7,716,585
EBITDA	(327,326)	-	1,278,081	950,755
Impairment	-	(10,000,000)	-	(10,000,000)
Depreciation and amortisation	(37,775)	(44,565)	(66,704)	(149,044)
Interest revenue	-	-	5,085	5,085
Finance costs	(331,160)	-	-	(331,160)
Loss before income tax	(696,261)	(10,044,565)	1,216,462	(9,524,364)
Loss after income tax	1,681,230	(10,044,565)	(1,161,029)	(9,524,364)
Segment Assets	167,661	7,576,584	2,973,568	10,717,813

11. Events Subsequent to Reporting Date

- On 28 January 2015, the Company received payment of \$533,785 from the Australian Tax Office with respect to its research and development refundable tax offset.
- On 16 February 2015, the Company announced it had issued 23,333,333 convertible notes to Gold Fresh Limited in settlement of a \$350,000 loan due to that entity. Shareholder approval for the issue of the convertible notes was previously granted at the Annual General Meeting held on 28 November 2014.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

11. Events Subsequent to Reporting Date (Cont'd)

- On 10 and 11 March 2015, the Company announced it had reached agreement for the restructuring of all its secured and unsecured loans. All loans had become due and payable on or before 29 November 2014.

As a consequence of Deeds of Settlement and Release executed with all lenders, the revised loan arrangements are as follows:

- (i) Principal amounts of the loans (\$3,500,000 secured and \$700,000 unsecured for an aggregate of \$4,200,000) have a maturity date of 30 April 2016;
- (ii) Interest due and payable as at 31 December 2014 of \$667,073 on all loans has been settled by the issue of 41,177,334 fully paid ordinary shares at an issue price of \$0.0162 per share; and
- (iii) With effect from 1 January 2015, the interest rate applicable to all loans has been reduced to 10% per annum from 15% and 18% in some instances. With effect from 1 January 2015, interest is payable at six-monthly intervals across all loans

Other than the above, there have been no other material items, transactions, or events subsequent to 31 December 2014 which, although they do not relate to conditions existing at that date, have not been dealt with in this report and which would cause reliance on the information shown in this report to be misleading.

DIRECTORS' DECLARATION

The Directors of KalNorth Gold Mines Limited declare that:

1. The financial statements and notes, are in accordance with the Corporations Act 2001, including :
 - (a) complying with Accounting Standard AASB 134 Interim Financial Reporting; and
 - (b) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date.
2. In the Directors' opinion there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Lijun Yang
Director

Dated at Perth this 16 March 2015

**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF
KALNORTH GOLD MINES LIMITED**

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of KalNorth Gold Mines Limited which comprises the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of KalNorth Gold Mines Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

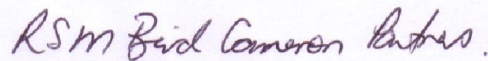
Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of KalNorth Gold Mines Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of KalNorth Gold Mines Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.



RSM BIRD CAMERON PARTNERS



D J WALL
Partner

Perth, WA
Dated: 16 March 2015